

**CITY OF SHELDON  
INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2008**

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CITY OF SHELDON  
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Kurt Tatsumi	Mayor	January 2010
Mark Postma	Council Member	January 2012
Kevin Welch	Council Member to January 2008	
Brad Hindt	Council Member from January 2008	January 2012
Dave Popkes	Council Member	January 2010
Ron Rensink	Council Member	January 2012
Duane Seehusen	Council Member	January 2010
Scott Wynja	City Manager	
Arlene Budden	Clerk/Treasurer	
Jack DeHoogh	Attorney	
Skip Tanner	Airport Commissioner	July 2009
Glen Zylstra	Airport Commissioner	July 2010
Steve Drenkow	Airport Commissioner	July 2009
Rob Dixon	Airport Commissioner	July 2010
Scott Meinecke	Airport Commissioner	July 2012
Hal Tuttle	Park Commissioner	July 2009
Thel Boone	Park Commissioner	July 2009
Toni Bart	Park Commissioner	July 2012
Jay Theis	Park Commissioner	July 2010
Shelly Miedoma	Park Commissioner to December 2007	
Krissa Jacobsma	Park Commissioner from March 2008	July 2010
Kathy VanderVliet	Library Trustee	July 2009
Rosalind Geels	Library Trustee	July 2009
Jane Cain	Library Trustee	July 2010
Darlene Krier	Library Trustee	July 2012
Joel Gustafson	Library Trustee	July 2013
Lynda Huisman	Library Trustee	July 2011
Judy Honkomp	Library Trustee	July 2013
Raeanne Tatsumi	Museum Trustee	July 2008
Marlene Pape	Museum Trustee	July 2010
Joe Wildeman	Museum Trustee	July 2010
Cindy Runger	Museum Trustee	July 2009
Mark Klemme	Museum Trustee	July 2010
Adrian Dorsman	Museum Trustee	July 2008
Pete Hamill	Recreational Trails Board	July 2010
Keith Rolston	Recreational Trails Board	July 2010
Phil Grove	Recreational Trails Board	July 2010
Rich Haack	Recreational Trails Board	July 2009
Lori Cannoy	Recreational Trails Board	July 2009
Jan Neel	Recreational Trails Board	July 2009
Stan Ten Kley	Recreational Trails Board	July 2011
Donna Brinkman	Recreational Trails Board	July 2011
Shirley Letner	Recreational Trails Board	July 2011

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

1316 West 18th Street  
P.O. Box 175  
Spencer, Iowa 51301-0175  
Phone 712-262-3117  
FAX 712-262-3159

1004 21st Street #4  
P.O. Box 187  
Milford, Iowa 51351  
Phone 712-338-2488  
FAX 712-338-2510

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Sheldon  
Sheldon, IA 51201

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sheldon, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Sheldon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sheldon at June 30, 2008 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2008 on our consideration of the City of Sheldon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 4 through 13 and 51 through 55 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sheldon's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Winter, Steve H. L.L.P.*

December 16, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sheldon provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2008 Financial Highlights

- Revenues of the City's governmental activities decreased .06%, or approximately \$3,300 from fiscal 2007 to fiscal 2008. Property tax decreased approximately \$85,500. The decline in property taxes is as follows:

Debt service	\$ 30,000	elimination of levy
FICA/IPERS	51,000	reduction in levy
General fund	<u>4,500</u>	reduction in valuations
Total Decrease	<u>\$ 85,500</u>	

- Program expenses increased by 51.61% or approximately \$2,790,500 in fiscal 2008 from fiscal 2007. Public works, debt service, and capital projects increased by approximately \$349,700, \$640,900, and \$2,680,400, respectively. Public safety, culture and recreation, community and economic development, and general government decreased by approximately \$203,900, \$123,000, \$534,000, and \$19,600, respectively.
- The City's net assets increased 5.66%, or approximately \$944,200, from June 30, 2007 to June 30, 2008. Of this amount, the net assets of the governmental funds increased by approximately \$687,900 and the net assets of the business type activities increased by approximately \$256,300.

### Using This Annual Report

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These statements provide information about the activities of the City as a whole and present an overall view of the City's finances.

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

## **Basis of Accounting**

The City financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The City prepares its budget and maintains its financial records on the cash basis.

## **Reporting The City's Financial Activities**

### Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities reports information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### Fund Financial Statements

The City has three kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as Tax Increment Financing and Local Option Sales Tax, (c) the Debt Service Fund, and (d) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2. Proprietary funds account for the City's Enterprise and Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. The Internal Service Fund is used to account for the City's self-insurance activities.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenditures and changes in fund net assets, and a statement of cash flows.

3. Fiduciary funds are used to report assets held in trust or agency capacity for others. The City's fiduciary fund is used to account for employee cafeteria funds.

The required financial statement for fiduciary funds includes a statement of fiduciary assets and liabilities.

### Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

#### Net Assets as of June 30, 2008

	Governmental Activities	Business Type Activities	Total
Current and other assets .....	\$ 9,299,665	\$ 2,804,150	\$12,103,815
Capital assets .....	<u>11,772,256</u>	<u>8,273,108</u>	<u>20,045,364</u>
Total assets	<u>21,071,921</u>	<u>11,077,258</u>	<u>32,149,179</u>
Long-term liabilities .....	7,112,932	2,429,465	9,542,397
Other liabilities .....	<u>3,898,716</u>	<u>1,082,143</u>	<u>4,980,859</u>
Total liabilities	<u>11,011,648</u>	<u>3,511,608</u>	<u>14,523,256</u>
Net assets:			
Invested in capital assets - net of related debt .....	7,850,017	5,907,392	13,757,409
Restricted .....	1,398,589	180,261	1,578,850
Unrestricted .....	<u>811,667</u>	<u>1,477,997</u>	<u>2,289,664</u>
Total net assets	<u>\$10,060,273</u>	<u>\$ 7,565,650</u>	<u>\$17,625,923</u>



Net Assets as of June 30, 2007

	Governmental Activities	Business Type Activities	Total
Current and other assets .....	\$ 6,448,586	\$ 3,587,608	\$10,036,194
Capital assets .....	<u>9,263,163</u>	<u>8,156,946</u>	<u>17,420,109</u>
Total assets	<u>15,711,749</u>	<u>11,744,554</u>	<u>27,456,303</u>
Long-term liabilities .....	3,376,937	2,551,161	5,928,098
Other liabilities .....	<u>2,962,406</u>	<u>1,884,075</u>	<u>4,846,481</u>
Total liabilities	<u>6,339,343</u>	<u>4,435,236</u>	<u>10,774,579</u>
Net assets:			
Invested in capital assets - net of related debt .....	7,177,263	5,738,173	12,915,436
Restricted .....	1,335,913	175,122	1,511,035
Unrestricted .....	<u>859,230</u>	<u>1,396,023</u>	<u>2,255,253</u>
Total net assets	<u>\$ 9,372,406</u>	<u>\$ 7,309,318</u>	<u>\$16,681,724</u>

Changes in Net Assets for the Year Ended June 30, 2008

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for services .....	\$ 636,410	\$1,479,592	\$ 2,116,002
Operating grants, contributions, and restricted interest .....	571,734	4,817	576,551
Capital grants, contributions, and restricted interest .....	935,102		935,102
General revenues:			
Property and other city taxes .....	1,118,066		1,118,066
Tax increment financing .....	1,382,583		1,382,583
Local option sales tax .....	507,338		507,338
Unrestricted investment earnings .....	102,533	145,824	248,357
Unrestricted miscellaneous .....	48,557		48,557
Operating transfers .....	20,000	(20,000)	
Fixed asset transfers .....	(77,386)	77,386	
Total revenues	<u>5,244,937</u>	<u>1,687,619</u>	<u>6,932,556</u>
Program expenses:			
Public safety .....	826,587		826,587
Public works .....	1,198,538		1,198,538
Culture and recreation .....	598,531		598,531
Community and economic development .....	1,285,353		1,285,353
General government .....	382,577		382,577
Debt service .....	265,484		265,484
Water .....		759,247	759,247
Sewer .....		672,040	672,040
Total expenses	<u>4,557,070</u>	<u>1,431,287</u>	<u>5,988,357</u>
Change in net assets	687,867	256,332	944,199
Net assets - beginning of year .....	<u>9,372,406</u>	<u>7,309,318</u>	<u>16,681,724</u>
Net assets - end of year	<u>\$10,060,273</u>	<u>\$7,565,650</u>	<u>\$17,625,923</u>

# Changes in Net Assets for the Year Ended June 30, 2007

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for services .....	\$ 669,638	\$1,406,197	\$ 2,075,835
Operating grants, contributions, and restricted interest .....	557,434	5,430	562,864
Capital grants, contributions, and restricted interest .....	1,097,019		1,097,019
General revenues:			
Property and other city taxes .....	1,166,395		1,166,395
Tax increment financing .....	1,212,202		1,212,202
Local option sales tax .....	447,781		447,781
Unrestricted investment earnings .....	61,487	60,200	121,687
Unrestricted miscellaneous .....	62,344		62,344
Fixed asset transfers .....	(575,714)	575,714	
Total revenues	<u>4,698,586</u>	<u>2,047,541</u>	<u>6,746,127</u>
Program expenses:			
Public safety .....	742,847		742,847
Public works .....	1,101,001		1,101,001
Culture and recreation .....	645,750		645,750
Community and economic development .....	938,537		938,537
General government .....	407,062		407,062
Debt service .....	171,362		171,362
Water .....		615,013	615,013
Sewer .....		658,510	658,510
Total expenses	<u>4,006,559</u>	<u>1,273,523</u>	<u>5,280,082</u>
Change in net assets	692,027	774,018	1,466,045
Net assets - beginning of year .....	<u>8,680,379</u>	<u>6,535,300</u>	<u>15,215,679</u>
Net assets - end of year	<u>\$9,372,406</u>	<u>\$7,309,318</u>	<u>\$16,681,724</u>

Net assets of governmental activities increased from FY07 by approximately \$687,900 or 7.34%. Net assets of business type activities increased from FY07 by approximately \$256,300 or 3.51%. The largest portion of the City's net assets is the invested in capital assets (e.g. land, Lewis and Clark water rights, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Other restricted net assets is land held by the City to be sold or granted to businesses for economic development purposes.

## Individual Major Governmental Fund Analysis

Changes in Fund Balances - Governmental Funds For the year ended June 30,	2008 <u>All Funds</u>	2007 <u>All Funds</u>
Revenues .....	\$5,169,360	\$5,172,687
Expenses .....	<u>8,197,646</u>	<u>5,407,169</u>
Net	(3,028,286)	(234,482)
Other financing sources .....	<u>4,841,764</u>	<u>128,272</u>
Increase (decrease) in fund balances	1,813,478	(106,210)
Fund balance - beginning of year .....	<u>2,005,947</u>	<u>2,112,157</u>
Fund balance - end of year	<u>\$3,819,425</u>	<u>\$2,005,947</u>

Governmental funds reported a combined fund balance of \$3,819,425 at June 30, 2008 which was \$1,813,478 more than the fund balance at June 30, 2007.

The general fund, tax increment financing, and local option sales tax funds showed modest changes of \$20,535, \$(188,446), and \$101,550, respectively.

The debt service and capital projects funds showed an increase of \$1,238,753 and \$591,723, respectively, due to project funding received in FY08 for projects to be completed in FY09.

## Individual Major Business Type Fund Analysis

Changes in Net Assets - Proprietary Funds For the year ended June 30,	2008 <u>Enterprise Funds</u>	2007 <u>Enterprise Funds</u>	2008 <u>Internal Service Funds</u>	2007 <u>Internal Service Funds</u>
Revenues .....	\$1,625,416	\$1,466,397	\$ 456,156	\$ 400,153
Expenses .....	<u>1,417,846</u>	<u>1,279,061</u>	<u>483,091</u>	<u>372,982</u>
Net	207,570	187,336	(26,935)	27,171
Net transfers .....	<u>57,386</u>	<u>575,714</u>	_____	_____
Increase in net assets .....	264,956	763,050	(26,935)	27,171
Net assets - beginning of year .....	<u>7,216,045</u>	<u>6,452,995</u>	<u>263,024</u>	<u>235,853</u>
Net assets - end of year	<u>\$7,481,001</u>	<u>\$7,216,045</u>	<u>\$ 236,089</u>	<u>\$ 263,024</u>

Enterprise funds reported combined net assets of \$7,481,001 at June 30, 2008 which was an increase of \$264,956 over the net assets at June 30, 2007.

The water fund reported net income of \$224,543 before transfers.

The sewer fund reported a net loss of \$(16,973) before transfers, which included depreciation expense of \$158,089.

## Budgetary Highlights

The City amended the budget on May 7, 2008. This amendment was needed to budget for a large payment to Lewis and Clark Rural Water System and for the refinancing of a bond issue. Even with this amendment, the City exceeded the budgeted amounts in the public safety and debt service functions for the year ended June 30, 2008.

## Capital Assets and Debt Administration

### Capital Assets Administration

A summary of the City's capital assets is as follows:

Capital Assets as of June 30, 2008			
	Governmental	Business Type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Land .....	\$ 406,000	\$ 84,390	\$ 490,390
Lewis and Clark water rights .....		2,399,542	2,399,542
Construction in progress .....	3,080,522	104,376	3,184,898
Building and improvements .....	4,404,747	4,956,893	9,361,640
Equipment and vehicles .....	2,346,840	818,867	3,165,707
Infrastructure .....	<u>8,229,312</u>	<u>4,725,504</u>	<u>12,954,816</u>
Total capital assets	18,467,421	13,089,572	31,556,993
Less accumulated depreciation .....	<u>6,695,165</u>	<u>4,816,464</u>	<u>11,511,629</u>
Net capital assets	<u>\$11,772,256</u>	<u>\$ 8,273,108</u>	<u>\$20,045,364</u>
Depreciation expense	<u>\$ 567,446</u>	<u>\$ 280,295</u>	<u>\$ 847,741</u>

Capital Assets as of June 30, 2007			
	Governmental	Business Type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Land .....	\$ 406,000	\$ 84,390	\$ 490,390
Lewis and Clark water rights .....		2,380,580	2,380,580
Construction in progress .....	328,705		328,705
Building and improvements .....	4,369,951	4,915,018	9,284,969
Equipment and vehicles .....	2,297,223	665,009	2,962,232
Infrastructure .....	<u>8,023,762</u>	<u>4,648,118</u>	<u>12,671,880</u>
Total capital assets	15,425,641	12,693,115	28,118,756
Less accumulated depreciation .....	<u>6,162,478</u>	<u>4,536,169</u>	<u>10,698,647</u>
Net capital assets	<u>\$ 9,263,163</u>	<u>\$ 8,156,946</u>	<u>\$17,420,109</u>
Depreciation expense	<u>\$ 581,388</u>	<u>\$ 275,523</u>	<u>\$ 856,911</u>

Major additions for the year ended June 30, 2008 included the new aquatic center, the 26<sup>th</sup> Avenue project, and the sewer rehab project.

## Debt Administration

At June 30, 2008, the City had \$9,486,362 in bonds and other long-term debt, compared to \$5,808,946 last year as shown below.

	Outstanding Debt at Year-End	
	June 30, <u>2008</u>	<u>2007</u>
Tax increment financing .....	\$3,107,522	\$ 821,855
Sewer revenue note .....	555,000	591,000
Water revenue note .....	1,809,688	1,900,000
Sales and service tax bonds .....	890,000	1,000,000
General obligation bonds .....	2,815,000	1,170,000
Airport improvement loan .....	<u>309,152</u>	<u>326,091</u>
Total	<u>\$9,486,362</u>	<u>\$5,808,946</u>

The City issued \$3,045,000 in urban renewal revenue annual appropriation capital loan notes in October 2007 to finance the aquatic center project. The City issued \$1,860,000 in general obligation capital loan notes in April 2008 to refinance a bond issue and to fund various projects to be completed in fiscal year ending June 30, 2009.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is well within its constitutional debt limit of \$10,404,751.

## **Economic Factors and Next Year's Budgets and Rates**

Each year the City of Sheldon's elected officials and department heads consider various factors that contribute to the establishment of the proposed budget. This includes tax rates, fees for services, grants, and other various funding sources. Over the last several years, the City Council has considered rate changes and other revenue streams to help offset the increased operating expenses. Once again this year, many factors helped to determine the 2008 - 2009 budget.

As in past years, city department heads, boards, and commissions reviewed and updated their five-year improvements plans. This is usually done in preparation for the budget process. Once again, a number of items that have been included on this list have been incorporated into the 2008 - 2009 budget. We continue to evaluate the general fund as the roll-back continues to have an adverse impact on the revenue in this fund. We also continue to monitor our Urban Renewal Districts (TIF) and consider any potential impacts they may create with increased valuations. We conducted rate comparisons of various tax levies in Northwest Iowa and also evaluated utility rates when considering rate changes.

## **Comparisons 2007-2008 to 2008-2009 Management Analysis**

In preparing for the 2008 - 2009 budget year, the City Council was faced with a decline in the general fund balance. With the continuation of the roll-back, general fund operating revenues remained virtually the same. The City Council had to deal with many challenges to offset and fund the increase in expenditures. A majority of this was done by using reserve funds and various grants to cover some of the needed capital items.

This year we also reviewed and took a close look at the tax levy rate for the city as we discussed various capital projects. It was determined that we have been very pro-active the last several years and have lowered our tax levy rate by almost \$3.25/\$1,000 over the last five years. We have also reduced our debt levy to zero over that same time. As this was discussed, we considered and issued an Essential Corporate Purpose Bond to cover a number of capital projects in the next budget year. We considered improvements to Water, Sewer, Streets, Library, Parks and Cemetery as well as funds toward a new pumper truck for the Fire Department. We proposed a \$1.11/\$1,000 increase in tax asking to cover approximately \$1.2 million in capital projects. In comparison to other Northwest Iowa communities, we are still on the lower tier of tax levy rates. A number of these essential projects would not be possible without the use of these essential corporate purpose bonds.

Once again, there was a slight growth in tax increment financing funds (TIF). A majority of the funds were allocated to the new hotel development project as an economic incentive. As the community continues to develop and grow, TIF has become a valuable tool to promote and enhance this economic growth. We also constructed and completed the new outdoor aquatic center in the community with the use of an annual appropriation Urban Renewal Revenue Bond. Other projects that will be considered in the next fiscal year are completion of the Sunshine Addition, watermain extensions, and a major trails project on the east end of the community. As development continues, we will monitor and utilize the TIF funds to install the needed infrastructure to make these improvements and open some additional development lots. The City Council continues to analyze the TIF situation and determine the appropriate need for the community. They will continue to consider districts that could be released from TIF; but with the amount of debt that is currently in these areas, the City shows a great need to capture these funds for various payments and capital projects.

This year the City Council proposed a rate increase of 4% to the water and 6% to the sewer fund utilities. With the increased operational expenses and projects in the respective departments, it was necessary to again consider an increase. With the decline in the sewer reserve, the Council felt it was necessary to increase sewer rates higher than water. The water department plans to purchase new meter reading equipment, continue with the watermain extension program, and clean a river area. The wastewater department plans to purchase a new lap top computer system. A number of the capital projects for water and sewer have been included in the Essential Corporate Bond for this fiscal year. The City also continues to be a member of the Lewis and Clark Regional Water System. The City has approved a water revenue bond of \$1.9 million to cover the capital cost for their portion of the project. This supplemental water system will help meet the needs for the future water growth of the community. There is currently a surcharge that covers a large portion of the annual payment and the remainder is derived from user rates and fees.

### **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Arlene Budden, City Clerk/Treasurer or Scott Wynja, City Manager, 416 9th St., Sheldon, Iowa.

CITY OF SHELTON  
STATEMENT OF NET ASSETS  
JUNE 30, 2008

	Governmental Activities	Business Type Activities	<u>Total</u>
<b>ASSETS</b>			
Cash and pooled investments .....	\$ 4,171,755	\$ 2,369,452	\$ 6,541,207
Receivables - net, where applicable, of allowances for uncollectibles:			
Property tax:			
Delinquent .....	8,631		8,631
Succeeding year .....	1,138,349		1,138,349
Tax increment financing:			
Delinquent .....	9,368		9,368
Succeeding year .....	1,747,453		1,747,453
Accounts and unbilled usage .....	121,887	174,087	295,974
Special assessments .....	56,362		56,362
Accrued interest .....	13,970	5,108	19,078
Due from other governments .....	205,374		205,374
Inventories .....		49,032	49,032
Prepaid expenses .....	108,028		108,028
Land held for resale .....	71,920		71,920
Restricted assets:			
Cash and pooled investments .....	304,500	201,263	505,763
Accrued interest receivable .....		323	323
Due from Sheldon Chamber & Development Corporation (SCDC) .....	1,279,452		1,279,452
Accrued interest on due from SCDC .....	62,616		62,616
Loan fees - net of accumulated amortization .....		4,885	4,885
Capital assets - net of accumulated depreciation ....	<u>11,772,256</u>	<u>8,273,108</u>	<u>20,045,364</u>
<b>TOTAL ASSETS</b>	<u>21,071,921</u>	<u>11,077,258</u>	<u>32,149,179</u>



CITY OF SHELDON  
STATEMENT OF NET ASSETS - Continued  
JUNE 30, 2008

	Governmental Activities	Business Type Activities	Total
<b>LIABILITIES</b>			
Accounts payable .....	\$ 545,741	\$ 59,941	\$ 605,682
Contracts payable .....	326,222	62,981	389,203
Due to Lewis and Clark Rural Water System .....		926,029	926,029
Medical claims payable .....	32,739	18,301	51,040
Salaries payable .....	10,033	6,156	16,189
Accrued interest payable .....	45,976	8,735	54,711
Deferred revenues:			
Succeeding year property tax .....	1,138,349		1,138,349
Succeeding year tax increment financing .....	1,747,453		1,747,453
Other .....	52,203		52,203
Long-term liabilities:			
Portion of payable due within one year:			
Customer deposits .....		21,325	21,325
Compensated absences .....	76,564	43,452	120,016
General obligation bonds .....	470,000		470,000
Tax increment financing revenue bonds .....	200,000		200,000
Sales tax bonds .....	115,000		115,000
Revenue notes .....		131,775	131,775
Other long-term debt .....	48,932		48,932
Portion of payable due after one year:			
General obligation bonds - net of unamortized discount .....	2,304,311		2,304,311
Tax increment financing revenue bonds - net of unamortized discount .....	2,800,383		2,800,383
Sales tax bonds .....	775,000		775,000
Revenue notes .....		2,232,913	2,232,913
Other long-term debt .....	322,742		322,742
<b>TOTAL LIABILITIES</b>	<u>11,011,648</u>	<u>3,511,608</u>	<u>14,523,256</u>
<b>NET ASSETS</b>			
Invested in capital assets - net of related debt .....	7,850,017	5,907,392	13,757,409
Restricted for:			
Debt service .....	338,728		338,728
Land held for resale .....	71,920		71,920
Special revenue purposes .....	987,941		987,941
Revenue note retirement .....		12,982	12,982
Sewer improvement .....		90,000	90,000
Sewer replacement .....		77,279	77,279
Unrestricted .....	811,667	1,477,997	2,289,664
<b>TOTAL NET ASSETS</b>	<u>\$10,060,273</u>	<u>\$ 7,565,650</u>	<u>\$17,625,923</u>

CITY OF SHELDON  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008

			<u>Program Revenues</u>	
			Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
	<u>Expenses</u>	<u>Charges for Services</u>		
FUNCTIONS/PROGRAMS:				
GOVERNMENTAL ACTIVITIES:				
Public safety .....	\$ 826,587	\$ 206,143	\$ 26,895	\$ 25,248
Public works .....	1,198,538	299,873	426,010	511,287
Culture and recreation .....	598,531	82,116	56,140	143,147
Community and economic development ...	1,285,353	4,265	2,094	255,420
General government .....	382,577	44,013	361	
Interest and fees on long-term debt .....	<u>265,484</u>		<u>60,234</u>	
TOTAL GOVERNMENTAL ACTIVITIES	<u>4,557,070</u>	<u>636,410</u>	<u>571,734</u>	<u>935,102</u>
BUSINESS TYPE ACTIVITIES:				
Water .....	759,247	844,828	2,529	
Sewer .....	<u>672,040</u>	<u>634,764</u>	<u>2,288</u>	
TOTAL BUSINESS TYPE ACTIVITIES	<u>1,431,287</u>	<u>1,479,592</u>	<u>4,817</u>	
 TOTAL	 <u>\$5,988,357</u>	 <u>\$2,116,002</u>	 <u>\$576,551</u>	 <u>\$ 935,102</u>

GENERAL REVENUES:

Property and other city taxes levied for:	
General purposes .....	
Tax increment financing .....	
Local option sales tax .....	
Unrestricted investment earnings .....	
Unrestricted miscellaneous .....	
Operating transfers .....	
Fixed asset transfers .....	
TOTAL GENERAL REVENUES	

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

# Exhibit B

## Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (568,301)		\$ (568,301)
38,632		38,632
(317,128)		(317,128)
(1,023,574)		(1,023,574)
(338,203)		(338,203)
<u>(205,250)</u>		<u>(205,250)</u>
<u>(2,413,824)</u>		<u>(2,413,824)</u>
	\$ 88,110	88,110
	<u>(34,988)</u>	<u>(34,988)</u>
	<u>53,122</u>	<u>53,122</u>
<u>(2,413,824)</u>	<u>53,122</u>	<u>(2,360,702)</u>
1,118,066		1,118,066
1,382,583		1,382,583
507,338		507,338
102,533	145,824	248,357
48,557		48,557
20,000	(20,000)	
<u>(77,386)</u>	<u>77,386</u>	
<u>3,101,691</u>	<u>203,210</u>	<u>3,304,901</u>
687,867	256,332	944,199
<u>9,372,406</u>	<u>7,309,318</u>	<u>16,681,724</u>
<u>\$10,060,273</u>	<u>\$7,565,650</u>	<u>\$17,625,923</u>

CITY OF SHELDON  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2008

ASSETS

	<u>General</u>	Tax Increment <u>Financing</u>	Local Option <u>Sales Tax</u>
ASSETS:			
Cash and pooled investments .....	\$ 651,801	\$ 126,497	\$525,120
Receivables - net, where applicable, of allowance for uncollectibles:			
Property tax:			
Delinquent .....	5,949		
Succeeding year .....	681,786		
Tax increment financing:			
Delinquent .....		9,368	
Succeeding year .....		1,747,453	
Accounts .....	99,804		21,805
Special assessments .....	56,362		
Accrued interest .....	1,728	1,891	1,496
Due from other governments .....	54,103		117,565
Land held for resale .....			
Due from Sheldon Chamber & Development Corporation (SCDC)			
Accrued interest on due from SCDC .....			
Restricted assets:			
Cash and pooled investments .....	_____	304,500	_____
 TOTAL ASSETS	 <u>\$1,551,533</u>	 <u>\$2,189,709</u>	 <u>\$665,986</u>

LIABILITIES AND FUND EQUITY

LIABILITIES:			
Accounts payable .....	\$ 85,571	\$ 403,475	
Contracts payable .....	57,346		
Salaries payable .....	6,526		
Deferred revenue:			
Succeeding year property tax .....	681,786		
Succeeding year tax increment financing .....		1,747,453	
Due from SCDC and related accrued interest.....			
Other .....	56,362		\$ 21,805
TOTAL LIABILITIES	<u>887,591</u>	<u>2,150,928</u>	<u>21,805</u>
 FUND BALANCES:			
Reserved for debt service .....		304,500	
Reserved for land held for resale .....			
Unreserved:			
Designated for future equipment purchases .....	133,698		
Undesignated:			
Reported in:			
General fund .....	530,244		
Special revenue funds .....		(265,719)	644,181
Capital projects funds .....			
TOTAL FUND BALANCES	<u>663,942</u>	<u>38,781</u>	<u>644,181</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$1,551,533</u>	 <u>\$2,189,709</u>	 <u>\$665,986</u>

See Notes to Financial Statements

# EXHIBIT C

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
\$1,244,265	\$ 971,915	\$ 468,634	\$3,988,232
		2,682	8,631
151,740		304,823	1,138,349
			9,368
			1,747,453
			121,609
			56,362
4,402	2,996	1,079	13,592
		33,706	205,374
	71,920		71,920
	1,279,452		1,279,452
	62,616		62,616
			<u>304,500</u>
<u>\$1,400,407</u>	<u>\$2,388,899</u>	<u>\$ 810,924</u>	<u>\$9,007,458</u>
	\$ 45,091	\$ 11,604	\$ 545,741
	268,876		326,222
		3,507	10,033
\$ 151,740		304,823	1,138,349
			1,747,453
	1,342,068		1,342,068
			78,167
<u>151,740</u>	<u>1,656,035</u>	<u>319,934</u>	<u>5,188,033</u>
1,248,667			1,553,167
	71,920		71,920
			133,698
			530,244
		490,990	869,452
	660,944		660,944
<u>1,248,667</u>	<u>732,864</u>	<u>490,990</u>	<u>3,819,425</u>
<u>\$1,400,407</u>	<u>\$2,388,899</u>	<u>\$ 810,924</u>	<u>\$9,007,458</u>

See Notes to Financial Statements

CITY OF SHELDON  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008

TOTAL GOVERNMENTAL FUND BALANCES PER EXHIBIT C ..... \$ 3,819,425

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE  
STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$18,467,421 and the accumulated depreciation is \$6,695,165. .... 11,772,256

Prepaid expenses are not available to pay current period expenses and, therefore, are not recorded in the funds. .... 108,028

The receivable and related accrued interest due from Sheldon Chamber & Development Corporation are not available to pay current period expenses and, therefore, are deferred in the funds. .... 1,342,068

Certain other receivables are not available to pay current period expenses and, therefore, are deferred in the funds. .... 25,964

The internal service fund is used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds. A portion of the assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets. .... 151,440

Long-term liabilities, including bonds and other long-term debt payable, compensated absences, and accrued interest payable, are not due and payable within the current period and, therefore, are not reported as liabilities in the funds. (7,158,908)

NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT A ..... \$10,060,273

CITY OF SHELDON  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Tax Incremental Financing</u>	<u>Local Option Sales Tax</u>
REVENUES:			
Property tax .....	\$ 688,624		
Tax increment financing .....		\$1,382,583	
Other city taxes .....	57,980		\$507,338
Licenses and permits .....	11,071		
Use of money and property .....	79,605	10,848	22,322
Intergovernmental .....	383,929		
Charges for services .....	493,486		
Special assessments .....	109		
Miscellaneous .....	115,905	2,100	40,903
TOTAL REVENUES	<u>1,830,709</u>	<u>1,395,531</u>	<u>570,563</u>
EXPENDITURES:			
Public safety .....	582,937		
Public works .....	682,005		
Culture and recreation .....	340,606		
Community and economic development .....	33,210	60,503	2,100
General government .....	188,708		113,763
Debt service .....		115,948	147,760
Capital projects .....		1,019,071	39,360
TOTAL EXPENDITURES	<u>1,827,466</u>	<u>1,195,522</u>	<u>302,983</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,243</u>	<u>200,009</u>	<u>267,580</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in .....	64,932	304,500	
Operating transfers out .....	(47,640)	(3,690,530)	(166,030)
Bonds proceeds .....		3,045,000	
Bond discount .....		(47,425)	
Gain (loss) on sale of lots .....			
TOTAL OTHER FINANCING SOURCES (USES)	<u>17,292</u>	<u>(388,455)</u>	<u>(166,030)</u>
NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	20,535	(188,446)	101,550
FUND BALANCES - BEGINNING OF YEAR .....	<u>643,407</u>	<u>227,227</u>	<u>542,631</u>
FUND BALANCES - END OF YEAR	<u>\$ 663,942</u>	<u>\$ 38,781</u>	<u>\$ 644,181</u>

## EXHIBIT E

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
		\$ 311,978	\$1,000,602
			1,382,583
		59,484	624,802
			11,071
\$ 16,358	\$ 52,557	14,750	196,440
	298,381	558,621	1,240,931
			493,486
			109
	<u>20,045</u>	<u>40,383</u>	<u>219,336</u>
<u>16,358</u>	<u>370,983</u>	<u>985,216</u>	<u>5,169,360</u>
		182,614	765,551
		549,310	1,231,315
		28,648	369,254
		210,478	306,291
		18,285	320,756
1,076,646			1,340,354
	<u>2,805,694</u>		<u>3,864,125</u>
<u>1,076,646</u>	<u>2,805,694</u>	<u>989,335</u>	<u>8,197,646</u>
<u>(1,060,288)</u>	<u>(2,434,711)</u>	<u>(4,119)</u>	<u>(3,028,286)</u>
468,691	3,337,787	87,722	4,263,632
	(305,192)	(34,240)	(4,243,632)
1,860,000			4,905,000
(29,650)			(77,075)
	(6,161)		(6,161)
<u>2,299,041</u>	<u>3,026,434</u>	<u>53,482</u>	<u>4,841,764</u>
1,238,753	591,723	49,363	1,813,478
<u>9,914</u>	<u>141,141</u>	<u>441,627</u>	<u>2,005,947</u>
<u>\$1,248,667</u>	<u>\$ 732,864</u>	<u>\$ 490,990</u>	<u>\$3,819,425</u>



CITY OF SHELDON  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO  
 THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2008

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS PER EXHIBIT E .....	\$ 1,813,478
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AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN  
 THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital expenditures exceeded depreciation expense for the year, as follows:

Expenditures for capital assets .....	\$ 3,153,925	
Transferred to water and sewer .....	(77,386)	
Depreciation expense .....	(567,446)	2,509,093

Prepaid expenses are not available to pay current period expenses and, therefore, are not recorded in the funds. The change in prepaid expenses results in differences between the statements, as follows:

Prepaid expenses - end of year .....	108,028	
Prepaid expenses - beginning of year .....	(100,529)	7,499

The receivable and related accrued interest due from Sheldon Chamber & Development Corporation (SCDC) is not available to pay current period expenses and, therefore, are deferred in the funds. The change in these deferred amounts results in differences between the statements as follows:

Due from SCDC deferred - end of year .....	1,279,452	
Accrued interest SCDC deferred - end of year .....	62,616	
Due from SCDC deferred - beginning of year .....	(1,217,208)	
Accrued interest SCDC deferred - beginning of year .....	(18,740)	106,120

Certain other receivables are not available to pay current period expenses and, therefore, are deferred in the funds. The change in these deferred amounts results in differences between the statements, as follows:

Special assessments deferred - end of year .....	4,159	
Other receivables - end of year .....	21,805	
Special assessments deferred - beginning of year .....	(187)	25,777

CITY OF SHELDON  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO  
 THE STATEMENT OF ACTIVITIES - Continued  
 FOR THE YEAR ENDED JUNE 30, 2008

Proceeds from issuing long-term liabilities provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

New issues .....	\$(4,905,000)	
Bond discount on new issues .....	77,075	
Amortization of bond discount .....	(6,607)	
Repayments .....	<u>1,101,272</u>	\$(3,733,260)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. The change in these accrued expenses results in differences between the statements, as follows:

Compensated absences - end of year .....	(76,564)	
Accrued interest payable - end of year .....	(45,976)	
Compensated absences - beginning of year .....	73,829	
Accrued interest payable - beginning of year .....	<u>26,182</u>	(22,529)

The internal service fund is used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds. A portion of the change in net assets of the internal service fund is reported with governmental activities. .... (18,311)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT B	<u>\$ 687,867</u>
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CITY OF SHELDON  
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
JUNE 30, 2008

	ASSETS			Internal Service
	Enterprise Funds			
	Water	Sewer	Total	Self-Insurance
ASSETS				
Cash and pooled investments .....	\$2,089,353	\$ 177,515	\$ 2,266,868	\$286,107
Receivables - net of allowance for uncollectibles:				
Accounts and unbilled usage .....	99,419	74,513	173,932	433
Accrued interest .....	4,132	765	4,897	589
Inventories .....	43,444	5,588	49,032	
Restricted assets:				
Revenue note and interest sinking account:				
Cash and pooled investments .....		12,895	12,895	
Accrued interest .....		87	87	
Revenue note improvement account:				
Cash and pooled investments .....		90,000	90,000	
Revenue note debt service account:				
Cash and pooled investments .....		77,043	77,043	
Accrued interest .....		236	236	
Customer deposits - cash .....	21,325		21,325	
Loan fees - net of accumulated amortization		4,885	4,885	
Capital assets - net of accumulated depreciation .....	5,101,040	3,172,068	8,273,108	
TOTAL ASSETS	7,358,713	3,615,595	10,974,308	287,129
LIABILITIES:				
Accounts payable .....	23,003	36,938	59,941	
Contracts payable .....	62,981		62,981	
Due to Lewis and Clark Rural Water System	926,029		926,029	
Medical claims payable .....				51,040
Salaries payable .....	3,228	2,928	6,156	
Accrued interest payable .....	6,922	1,813	8,735	
Long-term liabilities:				
Portion of payable due within one year:				
Customer deposits .....	21,325		21,325	
Compensated absences .....	17,667	25,785	43,452	
Revenue notes payable .....	94,775	37,000	131,775	
Portion of payable due after one year:				
Revenue notes payable .....	1,714,913	518,000	2,232,913	
TOTAL LIABILITIES	2,870,843	622,464	3,493,307	51,040
NET ASSETS:				
Invested in capital assets - net of related debt	3,316,139	2,591,253	5,907,392	
Restricted for:				
Revenue note retirement .....		12,982	12,982	
Sewer improvement .....		90,000	90,000	
Sewer replacement .....		77,279	77,279	
Unrestricted .....	1,171,731	221,617	1,393,348	236,089
TOTAL NET ASSETS	\$4,487,870	\$2,993,131	\$ 7,481,001	\$236,089

CITY OF SHELDON  
 RECONCILIATION OF STATEMENT OF NET ASSETS - PROPRIETARY FUNDS TO  
 THE STATEMENT OF NET ASSETS  
 JUNE 30, 2008

TOTAL NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT G ..... \$7,481,001

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE  
 STATEMENT OF NET ASSETS IS DIFFERENT BECAUSE:

The internal service fund is used by the City to charge the cost of partial self  
 funding the City's health insurance benefit plan to the individual funds. A portion  
 of the assets and liabilities of the internal service fund are included in business  
 type activities in the Statement of Net Assets. .... 84,649

TOTAL NET ASSETS - BUSINESS TYPE ACTIVITIES PER EXHIBIT A \$7,565,650

CITY OF SHELDON  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Enterprise Funds</u>			<u>Internal Service</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Self-Insurance</u>
OPERATING REVENUES:				
Charges for services .....	\$ 841,039	\$ 632,946	\$1,473,985	
Reimbursements from operating funds .....				\$349,707
Reimbursements from employees and insurance .....				94,407
Miscellaneous:				
Miscellaneous .....	<u>3,789</u>	<u>1,817</u>	<u>5,606</u>	
TOTAL OPERATING REVENUES	<u>844,828</u>	<u>634,763</u>	<u>1,479,591</u>	<u>444,114</u>
OPERATING EXPENSES:				
Business type activities:				
Cost of sales and services .....	543,741	484,482	1,028,223	
Depreciation .....	122,206	158,089	280,295	
Amortization .....		438	438	
Insurance charges and claims .....				<u>483,091</u>
TOTAL OPERATING EXPENSES	<u>665,947</u>	<u>643,009</u>	<u>1,308,956</u>	<u>483,091</u>
OPERATING INCOME (LOSS)	<u>178,881</u>	<u>(8,246)</u>	<u>170,635</u>	<u>(38,977)</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest income .....	131,503	14,322	145,825	12,042
Interest expense:				
Revenue note .....	<u>(85,841)</u>	<u>(23,049)</u>	<u>(108,890)</u>	
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>45,662</u>	<u>(8,727)</u>	<u>36,935</u>	<u>12,042</u>
NET INCOME (LOSS) BEFORE TRANSFERS	<u>224,543</u>	<u>(16,973)</u>	<u>207,570</u>	<u>(26,935)</u>
TRANSFERS:				
Operating transfers out .....	(10,000)	(10,000)	(20,000)	
Capital assets transferred in .....		<u>77,386</u>	<u>77,386</u>	
TOTAL TRANSFERS - NET	<u>(10,000)</u>	<u>67,386</u>	<u>57,386</u>	
CHANGE IN NET ASSETS	214,543	50,413	264,956	(26,935)
NET ASSETS - BEGINNING OF YEAR .....	<u>4,273,327</u>	<u>2,942,718</u>	<u>7,216,045</u>	<u>263,024</u>
NET ASSETS - END OF YEAR	<u>\$4,487,870</u>	<u>\$2,993,131</u>	<u>\$7,481,001</u>	<u>\$236,089</u>

CITY OF SHELDON  
 RECONCILIATION OF STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
 NET ASSETS - PROPRIETARY FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2008

TOTAL CHANGE IN NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT I ..... \$ 264,956

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE  
 STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

The internal service fund is used by the City to charge the cost of partial self  
 funding the City's health insurance benefit plan to the individual funds. A portion  
 of the change in net assets of the internal service fund is reported with business  
 type activities. .... (8,624)

CHANGE IN NET ASSETS OF BUSINESS TYPE ACTIVITIES PER EXHIBIT B \$ 256,332

CITY OF SHELDON  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Enterprise Funds</u>			<u>Internal Service</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Self-Insurance</u>
CASH FLOWS FROM				
OPERATING ACTIVITIES:				
Cash received from customers .....	\$ 864,254	\$ 630,392	\$1,494,646	
Cash received from employees and insurance .....				\$ 94,172
Other operating receipts .....	3,789	1,817	5,606	
Cash payments from operating funds .....				349,707
Cash payments to employees for services .....	(213,595)	(222,650)	(436,245)	
Cash payments for goods and services ....	(347,616)	(253,394)	(601,010)	(472,167)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>306,832</u>	<u>156,165</u>	<u>462,997</u>	<u>(28,288)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating transfers .....	(10,000)	(10,000)	(20,000)	
NET CASH (USED FOR) NONCAPITAL FINANCING ACTIVITIES	<u>(10,000)</u>	<u>(10,000)</u>	<u>(20,000)</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of fixed assets .....	(1,044,748)	(80,702)	(1,125,450)	
Principal paid on revenue notes .....	(90,312)	(36,000)	(126,312)	
Interest paid on revenue notes .....	(87,640)	(23,167)	(110,807)	
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,222,700)</u>	<u>(139,869)</u>	<u>(1,362,569)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments .....	140,068	18,330	158,398	13,658
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>140,068</u>	<u>18,330</u>	<u>158,398</u>	<u>13,658</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(785,800)	24,626	(761,174)	(14,630)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR .....	<u>2,896,478</u>	<u>332,827</u>	<u>3,229,305</u>	<u>300,737</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$2,110,678</u>	<u>\$ 357,453</u>	<u>\$2,468,131</u>	<u>\$286,107</u>

CITY OF SHELDON  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued  
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Enterprise Funds</u>			<u>Internal Service</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Self-Insurance</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
OPERATING INCOME (LOSS) .....	\$ 178,881	\$ (8,246)	\$ 170,635	\$ (38,977)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Depreciation .....	122,206	158,089	280,295	
Amortization .....		438	438	
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable and unbilled usage .....	1,389	(2,555)	(1,166)	(235)
Decrease (increase) in inventories .....	(1,395)	7,286	5,891	
Increase (decrease) in accounts payable .....	2,566	(950)	1,616	
Increase in medical claims payable .....				10,924
Increase in salaries payable .....	580	92	672	
Increase in customer deposits .....	900		900	
Increase in compensated absences .....	1,705	2,011	3,716	
TOTAL ADJUSTMENTS .....	127,951	164,411	292,362	10,689
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 306,832	\$ 156,165	\$ 462,997	\$ (28,288)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON THE STATEMENT OF NET ASSETS				
Cash and pooled investments .....	\$2,089,353	\$ 177,515	\$2,266,868	\$286,107
Restricted assets - cash and pooled investments:				
Revenue note and interest sinking account .....		12,895	12,895	
Revenue note improvement account .....		90,000	90,000	
Revenue note debt service account .....		77,043	77,043	
Customer deposits .....	21,325		21,325	
CASH AND CASH EQUIVALENTS - END OF YEAR	\$2,110,678	\$ 357,453	\$2,468,131	\$286,107
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES: .....				
A sewer project was paid by a governmental fund type and transferred to the sewer fund.				
Cost transferred in .....	\$ -	\$ 77,386	\$ 77,386	\$ -



CITY OF SHELDON  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2008

	Agency Cafeteria <u>Plan</u>
ASSETS:	
Cash and pooled investments .....	\$ 6,810
LIABILITIES:	
Cafeteria plan benefits payable .....	<u>6,810</u>
NET ASSETS	<u>\$</u>

CITY OF SHELDON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Sheldon is a political subdivision of the State of Iowa located in O'Brien and Sioux Counties. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Sheldon provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. It also provides water and sewer utilities.

The financial statements of the City of Sheldon have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. It was determined that the City has no component units.

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Northwest Iowa Area Solid Waste Agency, O'Brien County Emergency Management Association, O'Brien County E911 Board, Lewis and Clark Rural Water, and other various organizations.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Additionally, the City has reported an investment in land held for resale as restricted.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

*The General Fund* is the general operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs not paid from other funds.

*Special Revenue:*

*The Tax Increment Financing Revenues Fund* is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

*The Local Option Sales Tax Fund* is used to account for the revenues from the tax authorized by referendum and used for property tax relief and community betterment.

*The Debt Service Fund* is used to account for the payment of interest and principal on the City's general long-term debt.

*The Capital Projects Fund* is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

*Enterprise:*

*The Water Fund* is used to account for the operation and maintenance of the City's water system.

*The Sewer Fund* is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

Additionally, the City reports the following funds:

*Proprietary Fund* - An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

*Fiduciary Fund* - Agency Fund is used to account for assets held by the City as an agent for individuals.

### **C. Measurement Focus and Basis of Accounting**

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the City's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

#### **D. Assets, Liabilities and Fund Equity**

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments, and Cash Equivalents - The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of interest-bearing cash accounts, certificates of deposit, and perfected repurchase agreements which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents.

Property Tax Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2008 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2007.

Accounts and Unbilled Usage Receivable - Accounts receivable are recorded in the enterprise funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Special Assessments Receivable - Special assessments receivable represents the amounts due from individuals for work done which benefits their property. These assessments are payable by individuals in not less than ten nor more than twenty annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other tax.

Due From Other Governments - Due from other governments represents various shared revenues, grants, and reimbursements due from the State of Iowa and other governments.

Inventories - Proprietary Fund inventories of materials and supplies are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. The cost of inventories in the governmental funds are recorded as an expenditure at the time individual inventory items are purchased.

Restricted Assets - Proceeds from debt and funds set aside for payment of the tax increment financing and enterprise fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include property held for resale in the capital projects fund which represents land which the City has purchased. The City intends to sell the property as soon as possible. In addition, other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial individual costs in excess of \$5,000 and estimated useful lives in excess of two years.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	40 - 50 years
Improvements other than buildings	10 - 40 years
Vehicles	5 - 10 years
Equipment	5 - 20 years
Infrastructure	10 - 40 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of delinquent property tax receivable, special assessments receivable, amounts due from the Sheldon Chamber and Development Corporation, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied, and special assessments that are agricultural deferred.

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Road Use Funds.

Long-term Liabilities - In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Budgets and Budgetary Accounting - The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the public safety and debt service functions.

## 2. CASH AND INVESTMENTS

The City's demand deposits, savings accounts, and certificates of deposit at June 30, 2008 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash and investments consisted of the following at June 30, 2008:

Cash on hand .....	\$ 160
Demand deposits .....	431,679
Certificates of deposit/savings accounts .....	4,286,413
Repurchase agreements .....	<u>2,335,528</u>
	<u>\$7,053,780</u>

The City's investments in repurchase agreements are collateralized by obligations of the United States government or its agencies. The City has signed a custodial agreement with the custodian. The repurchase agreements are reported at cost, which approximates market value. These investments are insured or registered with the securities held by the City or its agent in the City's name.

### 3. ALLOWANCES FOR COLLECTION LOSSES

Allowances have been made for estimated collection losses on the following receivable amounts:

	<u>Gross Receivables</u>	<u>Allowance for Collection Losses</u>	<u>Net Receivables</u>
Accounts and unbilled usage:			
General Fund .....	\$117,562	\$ 17,758	\$ 99,804
Local Option Sales Tax Fund .....	21,805		21,805
Enterprise Fund:			
Water .....	103,561	4,142	99,419
Sewer .....	77,618	3,105	74,513
Internal Service Fund:			
Self insurance .....	<u>433</u>	<u>          </u>	<u>433</u>
	<u>\$320,979</u>	<u>\$ 25,005</u>	<u>\$295,974</u>

### 4. DUE FROM SHELDON CHAMBER AND DEVELOPMENT CORPORATION

During the year ended June 30, 2005, the City issued \$1,535,000 of taxable capital loan notes. A portion of the bond issue was granted to the Sheldon Chamber and Development Corporation (SCDC). The SCDC used the grant to purchase land for development and resale. The SCDC has agreed to pay \$18,042 per acre to the City as the land is sold. The price is anticipated to repay the grant, professional fees incurred by the City, and the SCDC's share of interest expense on the bond issue. During the year ended June 30, 2008, the City gave the SCDC additional land. The SCDC has agreed to pay \$18,042 per acre to the City as this land is sold. A summary of the amount due as of June 30, 2008 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Balance due at June 30, 2007 .....	\$1,217,208	\$ 18,740	\$1,235,948
Interest accrued to June 30, 2008 .....		43,876	43,876
Additional land given by the City during the year ended June 30, 2008 .....	<u>62,244</u>	<u>          </u>	<u>62,244</u>
Balance due at June 30, 2008	<u>\$1,279,452</u>	<u>\$ 62,616</u>	<u>\$1,342,068</u>

The due from SCDC is deferred in the governmental fund financial statements since it is not an available financial resource.



## 5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance Beginning of Year	Additions	Deletions	Transfers In (Out)	Balance End of Year
GOVERNMENTAL ACTIVITIES:					
COST OF CAPITAL ASSETS:					
Capital assets not being depreciated:					
Construction in progress .....	\$ 328,705	\$2,751,817			\$ 3,080,522
Land .....	406,000				406,000
Total capital assets not being depreciated	734,705	2,751,817			3,486,522
Capital assets being depreciated:					
Buildings and improvements .....	4,369,951	34,796			4,404,747
Equipment and vehicles .....	2,297,223	84,376	\$ (34,759)		2,346,840
Infrastructure .....	8,023,762	282,936		\$ (77,386)	8,229,312
Total capital assets being depreciated	14,690,936	402,108	(34,759)	(77,386)	14,980,899
TOTAL COST OF CAPITAL ASSETS	15,425,641	3,153,925	(34,759)	(77,386)	18,467,421
ACCUMULATED DEPRECIATION:					
Buildings and improvements .....	1,386,457	109,667			1,496,124
Equipment and vehicles .....	1,352,934	159,793	(34,759)		1,477,968
Infrastructure .....	3,423,087	297,986			3,721,073
TOTAL ACCUMULATED DEPRECIATION	6,162,478	567,446	(34,759)		6,695,165
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET	\$ 9,263,163	\$2,586,479	\$	\$ (77,386)	\$11,772,256
	Balance Beginning of Year	Additions	Deletions	Transfers In (Out)	Balance End of Year
BUSINESS TYPE ACTIVITIES:					
COST OF CAPITAL ASSETS:					
Capital assets not being depreciated:					
Construction in progress .....		\$ 104,376			\$ 104,376
Land .....	\$ 84,390				84,390
Lewis and Clark water rights .....	2,380,580	18,962			2,399,542
Total capital assets not being depreciated	2,464,970	123,338			2,588,308
Water and sewer plants .....	4,915,018	41,875			4,956,893
Equipment and vehicles .....	665,009	153,858			818,867
Infrastructure .....	4,648,118			\$ 77,386	4,725,504
Total capital assets being depreciated	10,228,145	195,733		77,386	10,501,264
TOTAL COST OF CAPITAL ASSETS	12,693,115	319,071		77,386	13,089,572
ACCUMULATED DEPRECIATION:					
Water and sewer plants .....	2,926,405	110,263			3,036,668
Equipment and vehicles .....	415,534	51,372			466,906
Infrastructure .....	1,194,230	118,660			1,312,890
TOTAL ACCUMULATED DEPRECIATION	4,536,169	280,295			4,816,464
BUSINESS TYPE CAPITAL ASSETS - NET	\$ 8,156,946	\$ 38,776	\$	\$ 77,386	\$ 8,273,108
COST OF LOAN FEES .....	\$ 8,750				\$ 8,750
Less accumulated amortization .....	3,427	\$ 438			3,865
LOAN FEES - NET	\$ 5,323	\$ (438)	\$	\$	\$ 4,885

Depreciation was charged to functions of the government as follows:

Governmental Activities:

Public safety .....	\$ 75,778
Public works .....	331,869
Culture and recreation .....	92,184
General government .....	<u>67,615</u>

Total Governmental Activities	<u>\$567,446</u>
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Business Type Activities:

Water .....	\$122,206
Sewer .....	<u>158,089</u>

Total Business Type Activities	<u>\$280,295</u>
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## 6. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Final Due Date</u>
GOVERNMENTAL ACTIVITIES:				
GENERAL OBLIGATION BONDS/NOTES:				
Essential corporate purpose .....	9-01-99		\$1,500,000	
Taxable capital loan notes .....	11-15-04	4.25 - 5.05%	1,535,000	6-01-2012
Capital loan notes - series 2008	4-01-08	2.35 - 3.65%	1,860,000	6-01-2018
TOTAL				
Less unamortized bond discount ..				
NET GENERAL OBLIGATION BONDS/NOTES				
TAX INCREMENT FINANCING REVENUE BONDS:				
Urban renewal revenue annual appropriation capital loan notes	10-19-07	3.80 - 4.75%	3,045,000	6-01-2020
Less unamortized bond discount				
NET TAX INCREMENT FINANCING REVENUE BONDS				
SALES AND SERVICE TAX BONDS:				
Refunding bonds .....	5-01-03	3.25 - 4.30%	1,415,000	6-01-2015
OTHER LONG-TERM DEBT:				
Rungers interim TIF loan .....	4-20-00	6.35%	250,000	5-25-2010
USDA airport loan .....	6-06-01	4.75%	400,000	6-05-2021
TOTAL				
COMPENSATED ABSENCES .....				
TOTAL GOVERNMENTAL ACTIVITIES				
BUSINESS TYPE ACTIVITIES:				
REVENUE NOTES:				
Sewer revenue capital loan notes	9-15-99	3.92%	814,000	6-01-2020
Water revenue capital loan note	3-25-07	4.59%	1,900,000	6-01-2022
TOTAL REVENUE NOTES				
CUSTOMER DEPOSITS .....				
COMPENSATED ABSENCES .....				
TOTAL BUSINESS TYPE ACTIVITIES				

<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
\$ 730,000		\$ 730,000		
1,170,000		215,000	\$ 955,000	\$220,000
<u>1,900,000</u>	<u>\$1,860,000</u>	<u>945,000</u>	<u>1,860,000</u>	<u>250,000</u>
	1,860,000		2,815,000	470,000
<u>(14,838)</u>	<u>(29,650)</u>	<u>(3,799)</u>	<u>(40,689)</u>	
<u>1,885,162</u>	<u>1,830,350</u>	<u>941,201</u>	<u>2,774,311</u>	<u>470,000</u>
	3,045,000		3,045,000	200,000
<u>(47,425)</u>	<u>(2,808)</u>	<u>(44,617)</u>		
<u>2,997,575</u>	<u>(2,808)</u>	<u>3,000,383</u>	<u>200,000</u>	
<u>1,000,000</u>		<u>110,000</u>	<u>890,000</u>	<u>115,000</u>
91,855		29,333	62,522	31,189
326,091		16,939	309,152	17,743
<u>417,946</u>		<u>46,272</u>	<u>371,674</u>	<u>48,932</u>
<u>73,829</u>	<u>2,735</u>		<u>76,564</u>	<u>76,564</u>
<u>\$3,376,937</u>	<u>\$4,830,660</u>	<u>\$1,094,665</u>	<u>\$7,112,932</u>	<u>\$910,496</u>
\$ 591,000		\$ 36,000	\$ 555,000	\$ 37,000
<u>1,900,000</u>		<u>90,312</u>	<u>1,809,688</u>	<u>94,775</u>
2,491,000		126,312	2,364,688	131,775
20,425	\$ 900		21,325	21,325
<u>39,736</u>	<u>3,716</u>		<u>43,452</u>	<u>43,452</u>
<u>\$2,551,161</u>	<u>\$ 4,616</u>	<u>\$ 126,312</u>	<u>\$2,429,465</u>	<u>\$196,552</u>

**General Obligation Bonds/Notes**

The City's total general obligation bonds/notes at June 30, 2008 were \$2,815,000.

**Sales and Service Tax Bonds**

On October 3, 1995, the residents of the City approved a local option sales tax at the rate of 1%. The revenues must be applied 37.5% for property tax relief and 62.5% for community betterment. The City has issued sales and service tax bonds to defray the cost of the Community Services Center project in accordance with Chapter 422B. The bonds are payable from 62.5% of the local option sales tax collected. If the 62.5% is insufficient to pay the bonds and interest, the shortfall may be paid from debt service. Therefore, the bonds are a general obligation of the City.

**Tax Increment Financing Revenue Bonds**

The City issued \$3,045,000 of urban renewal revenue annual appropriation capital loan notes in October 2007 for the purpose of defraying a portion of the costs of an aquatic center within the urban renewal district. The bonds are payable solely from the tax increment financing (TIF) revenues generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF revenues are generally projected to produce 100 percent of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. The bonds are subject at all times to non-appropriation by the City council. Therefore, only the principal and interest appropriated by the council is subject to the constitutional debt limit of the City. The amount appropriated for the fiscal year ending June 30, 2009 is \$332,140 including principal and interest.

**Revenue Notes**

The City has pledged future wastewater customer revenues, net of specific operating expenses, to repay the \$814,000 sewer revenue capital loan notes issued in September 1999. Proceeds from the notes provided financing for the construction of wastewater improvements. The notes are payable solely from wastewater customer net revenues and are payables through 2020. Annual principal and interest payments are expected to require less than 40% of net revenues. The total principal and interest payments remaining to be paid on the notes are \$706,194. For the current year, principal and interest paid and total customer net revenues were \$59,167 and \$150,281, respectively.

The resolution providing for the issuance of the sewer revenue capital loan note include the following provisions:

- (A) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (B) Sufficient monthly transfers shall be made into a separate sewer revenue sinking account for the purpose of making the principal and interest payments when due.
- (C) Additional monthly transfers shall be made to a separate sewer reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying principal and interest payments when insufficient money is available in the sinking account.

- (D) Additional monthly transfers of \$2,500 to a sewer improvement account shall be made until a balance of \$90,000 has been accumulated. This account is restricted for the purpose of paying principal and interest payments when insufficient money is available in the sinking and reserve accounts and to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget and for capital improvements to the systems.
- (E) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the note falling due in the same year.

During the year ended June 30, 2008, the City was in compliance with all the sewer revenue note provisions.

The City has also pledged future water customer revenues, net of specific operating expenses, to repay the \$1,900,000 water revenue capital loan notes issued in March 2007. Proceeds from the notes provided financing for the prepayment of the City's obligation to Lewis and Clark (see Note 7). The notes are payable solely from water customer net revenues and are payable through 2022. Annual principal and interest payments are expected to require less than 60% of net revenues. The total principal and interest payments remaining to be paid on the notes are \$2,472,969. For the current year, principal and interest paid and total customer net revenues were \$177,952 and \$301,087, respectively.

The notes were purchased by a local bank in participation with three other local banks.

The resolution providing for the issuance of the water revenue capital loan note include the following provisions:

- (A) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (B) Sufficient monthly transfers shall be made into a separate sewer revenue sinking account for the purpose of making the principal and interest payments when due.
- (C) Additional monthly transfers shall be made to a separate sewer reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying principal and interest payments when insufficient money is available in the sinking account.
- (D) User rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the note falling due in the same year.

The purchaser of the note has waived provisions (B) and (C). The City was in compliance with the other water revenue note provisions during the year ended June 30, 2008.

#### **Other Long-term Debt**

As of June 30, 2008, this debt consisted of the following:

- (1) Rungers Interim TIF Loan - This loan was used to purchase land for resale. The loan has an unpaid balance of \$62,522 as of June 30, 2008. The loan calls for monthly payments of \$2,855 including interest at 6.35%. The City will make these payments from TIF revenues. The loan is secured by real property.

- (2) Airport Loan - This loan was made through the United States Department of Agriculture for improvements at the City's airport. The loan has an unpaid balance of \$309,152 as of June 30, 2008, which will be paid from the general fund. The notes call for annual payments of \$32,428 including interest at 4.75%.

A summary of the City's long-term debt maturities is as follows:

Year Ending June 30,	Governmental Activities					
	General Obligation Bonds/Notes		Sales and Service Tax Bonds		Tax Increment Financing Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 470,000	\$108,548	\$ 115,000	\$ 34,260	\$ 200,000	\$132,140
2010	500,000	84,183	120,000	30,522	210,000	124,540
2011	515,000	66,982	125,000	26,322	215,000	116,350
2012	535,000	47,933	125,000	21,698	225,000	107,750
2013	120,000	26,935	130,000	16,823	235,000	98,525
2014	125,000	23,275	135,000	11,623	245,000	88,773
2015	130,000	19,275	140,000	6,020	255,000	78,360
2016	135,000	14,920			265,000	67,267
2017	140,000	10,263			280,000	55,475
2018	145,000	5,292			290,000	42,875
2019					305,000	29,535
2020					320,000	15,200
2021						
Total	<u>\$2,815,000</u>	<u>\$407,606</u>	<u>\$ 890,000</u>	<u>\$147,268</u>	<u>\$3,045,000</u>	<u>\$956,790</u>

Governmental Activities - Continued

Year Ending June 30,	Runners Interim TIF Loan		USDA Airport Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 31,189	\$ 3,073	\$ 17,743	\$ 14,685	\$ 833,932	\$292,706
2010	31,333	1,028	18,586	13,842	879,919	254,115
2011			19,469	12,959	874,469	222,613
2012			20,394	12,034	905,394	189,415
2013			21,362	11,066	506,362	153,349
2014			22,377	10,051	527,377	133,722
2015			23,440	8,988	548,440	112,643
2016			24,553	7,875	424,553	90,062
2017			25,720	6,708	445,720	72,446
2018			26,941	5,487	461,941	53,654
2019			28,221	4,207	333,221	33,742
2020			29,562	2,866	349,562	18,066
2021			30,784	1,462	30,784	1,462
Total	<u>\$ 62,522</u>	<u>\$ 4,101</u>	<u>\$ 309,152</u>	<u>\$112,230</u>	<u>\$7,121,674</u>	<u>\$1,627,995</u>

## Revenue Notes

Year Ending June 30,	Sewer Revenue Capital Loan Notes		Water Revenue Capital Loan Note		Total Revenue Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 37,000	\$ 21,756	\$ 94,775	\$ 81,991	\$ 131,775	\$103,747
2010	39,000	20,306	99,040	77,593	138,040	97,899
2011	40,000	18,777	103,638	72,995	143,638	91,772
2012	42,000	17,209	108,342	68,183	150,342	85,392
2013	43,000	15,562	113,584	63,151	156,584	78,713
2014	45,000	13,877	118,753	57,880	163,753	71,757
2015	47,000	12,113	124,266	52,366	171,266	64,479
2016	49,000	10,270	129,964	46,597	178,964	56,867
2017	50,000	8,350	136,137	40,562	186,137	48,912
2018	52,000	6,389	142,390	34,242	194,390	40,631
2019	54,000	4,351	149,000	27,631	203,000	31,982
2020	57,000	2,234	155,888	20,714	212,888	22,948
2021			163,180	13,476	163,180	13,476
2022			170,731	5,900	170,731	5,900
Total	<u>\$ 555,000</u>	<u>\$151,194</u>	<u>\$1,809,688</u>	<u>\$663,281</u>	<u>\$2,364,688</u>	<u>\$814,475</u>

### 7. LEWIS AND CLARK RURAL WATER SYSTEM, INC.

The City, in conjunction with 15 other municipalities and five rural water systems within South Dakota, Iowa, and Minnesota that provide drinking water to consumers, is a member of the Lewis and Clark Rural Water System, Inc. (The "System"). The System will collect, treat, and distribute drinking water to the entities involved upon completion. The City thinks that the System is a critical supplemental water source for the City's continued growth. The System's board of directors is comprised of 20 members, one from each participating entity. Under the articles of incorporation, no member has a residual equity interest.

The City has been making annual payments on its share of construction costs for several years. During the year ended June 30, 2007, the City made a commitment to prepay its remaining share of system costs. This will stop construction inflation on the City's remaining share of costs.

The city has determined that its share of the System's costs should be recorded as a capital asset (water rights). A summary of the City's share as of June 30, 2008 is as follows:

Paid through June 30, 2007 .....	\$ 547,484
Paid during the year ended June 30, 2008 .....	926,029
Remaining amount due to the System .....	<u>926,029</u>
City's Total Share of Costs Through June 30, 2008	<u>\$2,399,542</u>

The capital asset of \$2,399,542 will be amortized over the estimated life span of the System upon receipt of benefits from the System.



## 8. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency	\$ 22,950
	FICA/IPERS	11,290
	Local option sales tax	10,000
	Capital Projects	692
	Proprietary:	
	Enterprise:	
	Water	10,000
	Sewer	10,000
		<u>64,932</u>
Debt Service	General	32,428
	Special Revenue:	
	Tax increment financing	<u>436,263</u>
		<u>468,691</u>
Capital Projects	General	15,212
	Special Revenue:	
	Tax increment financing	3,217,575
	Local option sales tax	<u>105,000</u>
		<u>3,337,787</u>
Special Revenue:	Special Revenue:	
FICA/IPERS	Local option sales tax	<u>51,030</u>
Special Revenue:	Special Revenue:	
LMI	Tax increment financing	<u>36,692</u>
Special Revenue:		
Tax increment financing	Capital Projects	<u>304,500</u>
TOTAL OPERATING TRANSFERS		<u>\$4,263,632</u>

## 9. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual salary and the City is required to contribute 6.05% of annual covered salaries. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$77,232, \$74,900, and \$72,846, respectively, equal to the required contributions for each year.

## 10. OTHER EMPLOYEE BENEFITS

All full-time City employees accumulate sick leave hours for subsequent use. The accumulation of sick leave hours did not vest as of June 30, 2008 and therefore is not recognized as a liability until used by the employee or upon retirement or death. If paid upon retirement or death, payment is made for up to 50 percent of accrued sick leave, not to exceed 60 days. The City's approximate contingent liability for the unvested sick leave as of June 30, 2008 is as follows:

Governmental activities .....	\$202,017
Business type activities .....	<u>102,086</u>
 TOTAL	 <u>\$304,103</u>

## 11. HEALTH CARE FACILITY REVENUE BONDS AND HOUSING REVENUE NOTES

The City has issued a total of \$11,880,000 of Health Care Facility Revenue Bonds and Housing Revenue Notes under the provisions of Chapter 419 of the Code of Iowa, of which \$7,992,596 is outstanding at June 30, 2008. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

## 12. RELATED PARTY TRANSACTIONS

The City has business transactions between the City and City officials, totaling \$115,914 during the year ended June 30, 2008. See item 08-II-D in the Schedule of Findings.

## 13. CONTRACT AND OTHER COMMITMENTS

The City has entered into construction contracts for an airport terminal building and an aquatic center. A summary of the contracts is as follows:

Contract total .....	\$2,724,279
Completed as of June 30, 2008 .....	<u>2,618,003</u>
 Uncompleted	 <u>\$ 106,276</u>

The City has also entered into several tax increment financing rebate agreements with local businesses. The City has agreed to rebate the taxes paid by the business over a period of years. The City will expense the rebates as the taxes are collected and returned to the businesses.

## 14. SUBSEQUENT EVENTS

Subsequent to June 30, 2008, the City entered into four construction contracts totaling \$669,005 for recreation trails, an intersection project, improvements at Sunshine Addition, and a well replacement.

## **15. SIGNIFICANT GROUP CONCENTRATION OF CREDIT RISK**

In the course of selling water and sewer services, the City grants credit to customers, all of whom are local residents.

## **16. RISK MANAGEMENT**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 563 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2008 were \$108,028.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The City does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the

amount of such loss can be reasonably estimated. Accordingly, at June 30, 2008, no liability has been recorded in the City's financial statements. As of June 30, 2008, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City has established a self-insurance health insurance fund (an internal service fund) to account for group insurance risks. The City's plan has established a specific stop-loss amount of \$20,000 and an aggregate stop-loss of 125% of expected claims for the year. The City purchases commercial insurance for claims in excess of coverage provided.

The claims liability of \$51,040 reported in the fund at June 30, 2008 is based on claims reported but unpaid and estimated claims incurred but not reported as of June 30, 2008. Changes in the balances of claims liability during the year are as follows:

Unpaid claims - June 30, 2007 .....	\$ 40,116
Incurred claims and charges .....	483,091
Less claims and charges paid.....	<u>(472,167)</u>
 Unpaid claims - June 30, 2008	 <u>\$ 51,040</u>

The City has workmen's compensation coverage through the Iowa Municipalities Workers' Compensation Association. In addition, the City purchases employee blanket bond coverage from other insurers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **17. USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## **18. COLLECTIVE BARGAINING AGREEMENT**

All employees, except for the office personnel and management, are covered by collective bargaining agreements which expired June 30, 2008. The City has negotiated new agreements which expire June 30, 2011.

## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SHELDON  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -  
GOVERNMENTAL AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2008

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>
RECEIPTS:			
Property taxes .....	\$1,000,580		\$1,000,580
Other city taxes .....	591,117		591,117
Tax increment financing revenues .....	1,381,795		1,381,795
Licenses and permits .....	11,838		11,838
Use of money and property .....	204,717	\$ 172,056	376,773
Intergovernmental .....	1,242,981		1,242,981
Charges for services .....	490,988	1,851,094	2,342,082
Special assessments .....	109		109
Miscellaneous .....	<u>220,022</u>	<u>93,037</u>	<u>313,059</u>
TOTAL RECEIPTS	<u>5,144,147</u>	<u>2,116,187</u>	<u>7,260,334</u>
DISBURSEMENTS:			
Program:			
Public safety .....	765,503		765,503
Public works .....	1,193,661		1,193,661
Culture and recreation .....	371,462		371,462
Community and economic development .....	309,073		309,073
General government .....	318,461		318,461
Debt service .....	1,340,354		1,340,354
Capital projects .....	3,441,879		3,441,879
Business type .....		2,399,824	2,399,824
Non-program .....	<u>1,800</u>	<u>472,167</u>	<u>473,967</u>
TOTAL DISBURSEMENTS	<u>7,742,193</u>	<u>2,871,991</u>	<u>10,614,184</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(2,598,046)</u>	<u>(755,804)</u>	<u>(3,353,850)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfer in .....	4,263,632		4,263,632
Operating transfer out .....	(4,243,632)	(20,000)	(4,263,632)
Proceeds - sale of assets .....	55,868		55,868
Bond proceeds - net .....	<u>4,827,925</u>		<u>4,827,925</u>
TOTAL OTHER FINANCING SOURCES	<u>4,903,793</u>	<u>(20,000)</u>	<u>4,883,793</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES (USES) OVER (UNDER) DISBURSEMENTS	2,305,747	(775,804)	1,529,943
BALANCE - BEGINNING OF YEAR .....	<u>1,993,795</u>	<u>3,530,042</u>	<u>5,523,837</u>
BALANCE - END OF YEAR	<u>\$4,299,542</u>	<u>\$2,754,238</u>	<u>\$7,053,780</u>

Less Funds Not Required to be <u>Budgeted</u>	<u>Net Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Final to Actual Variance</u>
	\$ 1,000,580	\$ 991,060	\$ 991,060	\$ 9,520
	591,117	484,800	548,800	42,317
	1,381,795	1,398,964	1,398,964	(17,169)
	11,838	40,275	40,275	(28,437)
\$ 13,658	363,115	114,915	114,915	248,200
	1,242,981	1,221,600	1,209,258	33,723
356,449	1,985,633	1,913,220	1,913,220	72,413
	109	92	92	17
89,230	223,829	204,000	129,000	94,829
<u>459,337</u>	<u>6,800,997</u>	<u>6,368,926</u>	<u>6,345,584</u>	<u>455,413</u>
	765,503	735,238	735,238	(30,265)
	1,193,661	1,240,361	1,225,361	31,700
	371,462	675,726	445,726	74,264
	309,073	273,503	311,561	2,488
	318,461	334,977	334,977	16,516
	1,340,354	700,513	1,315,513	(24,841)
	3,441,879	4,191,036	3,951,036	509,157
	2,399,824	1,543,159	2,469,188	69,364
473,967				
<u>473,967</u>	<u>10,140,217</u>	<u>9,694,513</u>	<u>10,788,600</u>	<u>648,383</u>
<u>(14,630)</u>	<u>(3,339,220)</u>	<u>(3,325,587)</u>	<u>(4,443,016)</u>	<u>1,103,796</u>
	4,263,632	4,089,734	3,797,134	466,498
	(4,263,632)	(4,089,734)	(3,797,134)	(466,498)
	55,868	107,500	107,500	(51,632)
	<u>4,827,925</u>	<u>2,875,000</u>	<u>4,705,350</u>	<u>122,575</u>
	<u>4,883,793</u>	<u>2,982,500</u>	<u>4,812,850</u>	<u>70,943</u>
(14,630)	1,544,573	(343,087)	369,834	1,174,739
<u>307,547</u>	<u>5,216,290</u>	<u>3,116,910</u>	<u>5,016,910</u>	<u>199,380</u>
<u>\$292,917</u>	<u>\$6,760,863</u>	<u>\$2,773,823</u>	<u>\$ 5,386,744</u>	<u>\$1,374,119</u>

CITY OF SHELDON  
BUDGET TO GAAP RECONCILIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2008

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
REVENUES .....	\$5,144,147	\$ 25,213	\$5,169,360
EXPENDITURES/EXPENSES .....	<u>7,742,193</u>	<u>455,453</u>	<u>8,197,646</u>
NET BEFORE OTHER FINANCING SOURCES (USES)	(2,598,046)	(430,240)	(3,028,286)
OTHER FINANCING SOURCES (USES) - NET .....	<u>4,903,793</u>	<u>(62,029)</u>	<u>4,841,764</u>
NET	2,305,747	(492,269)	1,813,478
BEGINNING FUND BALANCES/NET ASSETS .....	<u>1,993,795</u>	<u>12,152</u>	<u>2,005,947</u>
ENDING FUND BALANCES/NET ASSETS	<u>\$4,299,542</u>	<u>\$(480,117)</u>	<u>\$3,819,425</u>



Proprietary Funds

<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
\$2,116,187	\$ (34,615)	\$2,081,572
<u>2,871,991</u>	<u>(971,054)</u>	<u>1,900,937</u>
(755,804)	936,439	180,635
<u>(20,000)</u>	<u>77,386</u>	<u>57,386</u>
(775,804)	1,013,825	238,021
<u>3,530,042</u>	<u>3,949,027</u>	<u>7,479,069</u>
<u>\$2,754,238</u>	<u>\$4,962,852</u>	<u>\$7,717,090</u>

CITY OF SHELDON  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
FOR THE YEAR ENDED JUNE 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds, and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,094,087. This amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements in the public safety and debt service functions exceeded the amount budgeted.

## OTHER SUPPLEMENTARY INFORMATION

CITY OF SHELDON  
COMBINING BALANCE SHEET  
ALL NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

	<u>Special Revenue Funds</u>		
	<u>LHAP Reuse</u>	<u>FICA/IPERS</u>	<u>Road Use</u>
ASSETS:			
Cash and pooled investments .....	\$ 44,214	\$137,097	\$ 30,843
Receivables:			
Property tax:			
Delinquent .....		2,492	
Succeeding year .....		282,899	
Accrued interest .....	194	421	
Due from other governments .....			33,706
TOTAL ASSETS	<u>\$ 44,408</u>	<u>\$422,909</u>	<u>\$ 64,549</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable .....			\$ 11,268
Salaries payable .....		\$ 1,069	2,438
Deferred revenue:			
Succeeding year property tax .....		282,899	
TOTAL LIABILITIES		<u>283,968</u>	<u>13,706</u>
FUND BALANCES:			
Unreserved:			
Undesignated:			
Reported in special revenue funds .....	\$ 44,408	138,941	50,843
TOTAL FUND BALANCES	<u>44,408</u>	<u>138,941</u>	<u>50,843</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 44,408</u>	<u>\$422,909</u>	<u>\$ 64,549</u>

<u>Special Revenue Funds</u>					
<u>LMI</u>	<u>Emergency</u>	<u>Hotel/Motel Tax</u>	<u>Housing Rehab</u>	<u>Trails Maintenance</u>	<u>Total</u>
\$105,470				\$151,010	\$ 468,634
	\$ 190				2,682
	21,924				304,823
263				201	1,079
					33,706
<u>\$105,733</u>	<u>\$ 22,114</u>	<u>\$</u>	<u>\$</u>	<u>\$151,211</u>	<u>\$ 810,924</u>
				\$ 336	\$ 11,604
					3,507
	\$ 21,924				304,823
	21,924			336	319,934
<u>\$105,733</u>	<u>190</u>	<u></u>	<u></u>	<u>150,875</u>	<u>490,990</u>
<u>105,733</u>	<u>190</u>	<u></u>	<u></u>	<u>150,875</u>	<u>490,990</u>
<u>\$105,733</u>	<u>\$ 22,114</u>	<u>\$</u>	<u>\$</u>	<u>\$151,211</u>	<u>\$ 810,924</u>

CITY OF SHELDON  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
ALL NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Special Revenue Funds</u>		
	<u>LHAP Reuse</u>	<u>FICA/IPERS</u>	<u>Road Use</u>
REVENUES:			
Property tax .....		\$289,864	
Other city taxes .....		11,137	
Use of money and property .....	\$ 2,094	5,255	
Intergovernmental .....			\$421,055
Miscellaneous .....		4,898	
TOTAL REVENUES	<u>2,094</u>	<u>311,154</u>	<u>421,055</u>
EXPENDITURES:			
Public safety .....		182,614	
Public works .....		124,419	424,891
Culture and recreation .....		20,600	
Community and economic development .....	10,000		
General government .....		18,285	
TOTAL EXPENDITURES	<u>10,000</u>	<u>345,918</u>	<u>424,891</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(7,906)</u>	<u>(34,764)</u>	<u>(3,836)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in .....		51,030	
Operating transfers out .....		(11,290)	
TOTAL OTHER FINANCING SOURCES (USES)		<u>39,740</u>	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(7,906)	4,976	(3,836)
FUND BALANCES - BEGINNING OF YEAR .....	<u>52,314</u>	<u>133,965</u>	<u>54,679</u>
FUND BALANCES - END OF YEAR	<u>\$ 44,408</u>	<u>\$138,941</u>	<u>\$ 50,843</u>

<u>Special Revenue Funds</u>					
<u>LMI</u>	<u>Emergency</u>	<u>Hotel/Motel Tax</u>	<u>Housing Rehab</u>	<u>Trails Maintenance</u>	<u>Total</u>
	\$ 22,114				\$ 311,978
	850	\$ 47,497			59,484
\$ 2,544				\$ 4,857	14,750
			\$135,566	2,000	558,621
			8,667	26,818	40,383
<u>2,544</u>	<u>22,964</u>	<u>47,497</u>	<u>144,233</u>	<u>33,675</u>	<u>985,216</u>
					\$ 182,614
					549,310
				8,048	28,648
2,000		47,497	150,981		210,478
					18,285
<u>2,000</u>	<u>          </u>	<u>47,497</u>	<u>150,981</u>	<u>8,048</u>	<u>989,335</u>
<u>544</u>	<u>22,964</u>	<u>          </u>	<u>(6,748)</u>	<u>25,627</u>	<u>(4,119)</u>
36,692					87,722
<u>          </u>	<u>(22,950)</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>(34,240)</u>
<u>36,692</u>	<u>(22,950)</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>53,482</u>
37,236	14		(6,748)	25,627	49,363
<u>68,497</u>	<u>176</u>	<u>          </u>	<u>6,748</u>	<u>125,248</u>	<u>441,627</u>
<u>\$105,733</u>	<u>\$ 190</u>	<u>\$          </u>	<u>\$          </u>	<u>\$150,875</u>	<u>\$ 490,990</u>

CITY OF SHELDON  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -  
 ALL GOVERNMENTAL FUNDS  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
REVENUES:				
Property tax .....	\$1,000,602	\$1,086,057	\$1,163,463	\$1,384,120
Tax increment financing .....	1,382,583	1,212,202	1,151,255	1,015,459
Other City taxes .....	624,802	528,119	477,485	474,961
Licenses and permits .....	11,071	42,638	10,443	10,550
Use of money and property .....	196,440	148,670	135,491	109,513
Intergovernmental .....	1,240,931	1,435,415	488,348	607,991
Charges for services .....	493,486	488,464	492,286	472,642
Special assessments .....	109	833	653	3,920
Miscellaneous .....	<u>219,336</u>	<u>230,289</u>	<u>130,694</u>	<u>73,315</u>
 TOTAL REVENUES	 <u>\$5,169,360</u>	 <u>\$5,172,687</u>	 <u>\$4,050,118</u>	 <u>\$4,152,471</u>
 EXPENDITURES:				
Public safety .....	\$ 765,551	\$ 969,476	\$ 709,730	\$ 673,145
Public works .....	1,231,315	881,578	819,991	790,576
Culture and recreation .....	369,254	492,246	432,679	389,688
Community and economic development .....	306,291	840,252	146,388	161,755
General government .....	320,756	340,416	320,094	510,249
Debt service .....	1,340,354	699,461	781,458	1,166,454
Capital projects .....	<u>3,864,125</u>	<u>1,183,740</u>	<u>942,027</u>	<u>1,631,676</u>
 TOTAL EXPENDITURES	 <u>\$8,197,646</u>	 <u>\$5,407,169</u>	 <u>\$4,152,367</u>	 <u>\$5,323,543</u>



**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

1316 West 18th Street  
P.O. Box 175  
Spencer, Iowa 51301-0175  
Phone 712-262-3117  
FAX 712-262-3159

1004 21st Street #4  
P.O. Box 187  
Milford, Iowa 51351  
Phone 712-338-2488  
FAX 712-338-2510

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and  
Members of the City Council  
City of Sheldon  
Sheldon, IA 51201

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sheldon, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 16, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

### **Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sheldon, and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Winter, Stone & Co. LLP*

December 16, 2008

CITY OF SHELDON  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2008

**Part I: Findings Related to the Financial Statements**

**Reportable Conditions:**

No material weaknesses in internal control over financial reporting were reported.

**Instances of Non-Compliance:**

No findings were noted.

CITY OF SHELDON  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2008

**Part II: Other Findings Related to Required Statutory Reporting**

- 08-II-A Certified Budget - Disbursements during the year ended June 30, 2008 exceeded the amount budgeted in the public safety and debt service function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The debt service function exceeded budget due to accrued interest on the aquatic center bond exceeding the estimated amount. The public safety function exceeded budget due to equipment ordered in fiscal year June 30, 2007 but not received and paid for until fiscal year June 30, 2008. The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- 08-II-B Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- 08-II-C Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

- 08-II-D Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ron Rensink, Council Member, Owner of Perspective Insurance	Insurance	\$113,563
Kurt Tatsumi, Mayor, Owner of K-T Industries and Signature Printing	Printing and supplies	404
Brad Hindt, Council Member, Owner of Downtown Hardware	Supplies	1,928
Mark Postma, Council Member, Owner Bubbles/Bee Kleen	Laundry	19

The transactions with Mr. Tatsumi and Mr. Postma do not appear to be a conflict of interest since the total paid to each individual was less than \$1,500.

CITY OF SHELDON  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2008

**Part II: Other Findings Related to Required Statutory Reporting** - Continued

08-II-D (Continued)

The transactions with Mr. Rensink do not appear to be a conflict of interest since they relate primarily to payment on the City's Iowa Community Assurance Pool (ICAP) insurance policy. The contract with ICAP was signed prior to Mr. Rensink being a council member and is therefore an exception under Chapter 362.5(7) of the Code of Iowa.

The transactions with Mr. Hindt may represent a conflict of interest since the total paid to his business was more than \$1,500 and competitive bidding was not utilized.

Recommendation - The City should use the competitive bidding process when practicable.

Response - These transactions were for normal expenses. The City will monitor spending and use competitive bidding when practicable.

Conclusion - Response accepted.

08-II-E Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

08-II-F Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

08-II-G Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

08-II-H Revenue Notes - No noncompliance with revenue note provisions were noted.

08-II-I Economic Development - We noted that the City paid the Sheldon Chamber and Development Corporation \$55,000 from tax increment financing revenues, \$47,497 from hotel/motel tax, and \$20,000 from local option sales tax.

In addition, we noted that the City paid the O'Brien County Economic Development Corporation \$5,503 from tax increment financing revenues.

It appears the City properly evaluated the public purpose and requires documentation of how the funds were used.